

Consolidated Financial Statements of

**PACIFIC COMOX RESOURCES LTD.**

(A DEVELOPMENT STAGE ENTERPRISE)

Three Months ended January 31, 2005 and 2004

Toronto, Canada

**PACIFIC COMOX RESOURCES LTD.**  
(A DEVELOPMENT STAGE ENTERPRISE)

Consolidated Balance Sheets January 31, 2005 and October 31, 2004

<b>Assets</b>	January 31 2005 Unaudited	October 31 2004 Audited
<b>Current assets:</b>		
Cash	\$ 49,428	62,915
Accounts receivable	4,912	9,135
Advances and prepaid expenses	<u>492</u>	<u>492</u>
	54,832	72,542
Investment in related party (note 3)	152,994	138,367
Mineral properties and intangible assets (note 5)	1,554,453	1,496,251
Capital assets (note 4)	<u>3,755</u>	<u>4,059</u>
	\$ 1,766,034	1,711,219
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 136,581	143,722
Due to a shareholder and officer (note 3)	<u>78,983</u>	<u>118,213</u>
	215,564	261,935
Shares to be issued (note 9)	207,400	75,000
Shareholders' equity:		
Share capital (note 8)	13,226,763	13,226,763
Warrants (note 8)	101,287	101,287
Deficit	<u>(11,984,981)</u>	<u>(11,953,766)</u>
	1,343,070	1,374,284
Going concern basis (note 1)		
Commitments (note 5)		
Subsequent events (note 9)	\$ 1,766,034	1,711,219

See accompanying notes to consolidated financial statements.

“Donald Empey”  
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President (signed)

“Marvin Wolff”  
\_\_\_\_\_  
Director (signed)

# PACIFIC COMOX RESOURCES LTD.

(A DEVELOPMENT STAGE ENTERPRISE)

Consolidated Statements of Operations and Deficit

Three months ended January 31, 2005 and January 31, 2004

Unaudited	2005	2004
Expenses		
Administrative (note 3)	30,867	42,820
Interest (net)	347	5,355
Net loss	(31,214)	(43,355)
Deficit, beginning of period	(11,953,766)	(11,710,751)
Deficit, end of period	(11,984,980)	(11,754,116)
Basis and diluted loss per share (note 2(f))	\$(0.00)	\$(0.00)

See accompanying notes to consolidated financial statements.

**PACIFIC COMOX RESOURCES LTD.**  
(A DEVELOPMENT STAGE ENTERPRISE)

Consolidated Statements of Cash Flows

Three months ended January 31, 2005 and 2004

Unaudited	2005	2004
<b>Cash provided by (used in)</b>		
<b>Operating activities:</b>		
Net income (loss)	\$ (31,214)	\$ (43,355)
Item which does not affect cash:		
Depreciation	304	435
Change in non-cash operating working capital	<u>(2,918)</u>	<u>(200,620)</u>
	(33,828)	(243,540)
<b>Financing activities:</b>		
Due to a shareholder and officer	(39,230)	(4,075)
Shares to be issued	<u>132,400</u>	<u>398,000</u>
	93,170	388,925
<b>Investing activities:</b>		
Deferred exploration expenditures (note 5)	(58,202)	(133,119)
Due from related party	<u>(14,624)</u>	<u>(16,035)</u>
	(72,829)	(149,154)
Increase (decrease) in cash	13,487	(3,769)
Cash, beginning of year	62,915	45,809
<b>Cash, end of period</b>	<b>\$ 49,428</b>	<b>\$ 42,040</b>

See accompanying notes to consolidated financial statements.

# PACIFIC COMOX RESOURCES LTD.

(A DEVELOPMENT STAGE ENTERPRISE)

## Notes to Consolidated Financial Statements

Three months ended January 31, 2005 and 2004

Pacific Comox Resources Ltd. (the "Company") was incorporated to seek mineral exploration and development opportunities. The Company is in the process of exploring its mineral properties located in Mexico, Chile and Canada and has not yet determined whether these properties contain mineralization that is economically recoverable. The recoverability of amounts shown on mineral properties and intangible assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or the proceeds from the disposition thereof. To date, the Company has not earned significant revenue from any of its activities and is considered to be in the development stage.

### 1. Going concern basis:

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles on a going concern basis which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company has no source of operating cash flow and its ability to continue as a going concern is dependent on the continuing financial support of its shareholders and other related parties. These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

### 2. Summary of significant accounting policies:

#### (a) Basis of consolidation:

The unaudited consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. These unaudited financial statements have been prepared following the same accounting policies and methods of computation as the audited financial statements for the fiscal year ended October 31, 2004. The disclosures provided below are incremental to those included with the audited annual financial statements. These unaudited financial statements should be read in conjunction with the Company's audited financial statements and notes for the year ended October 31, 2004.

The consolidated financial statements include the accounts of the Company's wholly owned subsidiary in Mexico, Pacific Comox S.A. de C.V. All intercompany balances and transactions have been eliminated.

#### (b) Mineral properties and intangible assets:

Mineral properties represent the cost of acquired mineral claims and deferred exploration and development activity. Where the Company has not yet acquired the mineral rights these are recorded as intangible assets. Expenditures are capitalized on an area-of-interest basis and include direct costs of obtaining, maintaining and exploring properties, the costs of structures and equipment which are employed directly in the exploration process and other direct costs related to specific

properties. All other costs, including administrative overhead, are expensed as incurred.

3. Related party transactions:

Amounts due to/from related parties are as follows:

	January 31 2005	October 31 2004
Due to a shareholder and officer	\$ 78,983	\$ 118,213
Investment in a corporation under common management	152,994	138,367

The amount due to a shareholder and officer represent amounts advanced which are non-interest bearing and due on demand.

The investment in a corporation under common management represents amounts invested. While management believes that the amount is not impaired, there can be no assurance that the full amount will be recovered.

Amounts recorded during the year are as follows:

	January 31 2005	January 31 2004
Rent paid to a corporation under common management	\$ 2,950	\$ 2,154
Consulting fees to an officer of the Company	15,000	15,000

Transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

4. Capital assets:

	Cost	Accumulated depreciation	January 31 2005 Net book value	October 31 2004 Net book value
Computer equipment	\$ 6,823	\$ 3,068	\$ 3,755	\$ 4,059

5. Mineral properties and intangible assets:

On July 1, 2002, the Company entered into an agreement with respect of certain exploration properties in Mexico, whereby the Company will acquire a 100% interest in the properties over a five-year period, for an aggregate purchase price payable as follows:

(a) A total cash payment of U.S. \$386,000 payable:

- (i) Year one - U.S. \$20,000, which has been paid;
- (ii) Year two - U.S. \$60,000, which has been paid; and

(iii) Years three, four and five - U.S. \$102,000 per year, payable either in monthly payments of U.S. \$8,500 or quarterly payments of U.S. \$25,500. U.S. \$76,500 has been paid through January 31, 2005 in respect of year three.

(b) Subject to regulatory approval and conditions, issue a total of 3,500,000 shares of the Company to the vendors, in a five-year period; respectively, 250,000 shares in each of years one and two, 500,000 shares in year three, 1,000,000 shares in year four and 1,500,000 shares in year five. In June 2004, a total of 500,000 shares were issued valued at \$0.08 per share; and

(c) A total work commitment of U.S. \$2,300,000, to be spent on the properties in the five-year period; respectively, U.S. \$75,000 in year one, U.S. \$200,000 in year two, U.S. \$500,000 in each of the years three and four and U.S. \$1,000,000 in year five. As of December 31, 2004, the Company met the requirements for the first two years ended June 30, 2004.

Failure to comply with the above conditions may cause the Company to lose all the rights under the agreement (subject to a six-month default notice by the vendors).

The properties are also subject to a net smelter royalty of 3% rising to 3.5% for periods in which the gold price exceeds U.S. \$350 per ounce and to 4.0% for periods in which the gold price exceeds U.S. \$400 per ounce. The Company has the right to purchase (during the term of the agreement and for two years after the commencement of the commercial production) 50% of the net smelter royalty for U.S. \$4,500,000.

Expenditures relating to the Company's properties are as follows:

Mexican Properties, October 31, 2004	\$ 1,496,251
Acquisition costs	33,193
Deferred exploration costs	10,915
Balance, October 31, 2004	\$ 1,540,359
Other properties – Deferred exploration costs	14,094
Balance – January 31, 2005	\$1,554,453

On November 10, 2004 the Company entered into a Letter Of Intent to option the "Pepa de Oro" property in Chile. In February, 2005 the Company paid US\$20,000 to the Vendor and has the right to explore the property to November 10, 2005.

#### 6. Income taxes:

The provision for (recovery of) income taxes varies from the amounts that would be computed by applying the combined Canadian federal and provincial statutory rate of 36.12% (2003 - 36.5%) to income before income taxes as follows:

	2004	2003
Expected income taxes (recovery) using statutory income tax rate	\$ (87,000)	\$ 63,000
Tax benefit of losses (gains) not previously recognized	87,000	(63,000)
Balance	\$ -	\$ -

The tax effects of temporary differences that give rise to significant portions of the future tax liabilities at October 31, 2004 and 2003 are as follows:

	2004	2003
Canada:		
Capital assets	\$ 14,000	\$ –
Non-capital losses	408,000	385,000
Resource pools	905,000	990,000
Unrealized capital losses	1,200,000	1,100,000
Valuation allowance	(2,527,000)	(2,475,000)
	\$ –	\$ –

At October 31, 2004, the Company has non-capital loss carryforwards of approximately \$1,117,000 available to reduce taxable income in future years. These losses expire through 2011. The benefit of these non-capital loss carryforwards has not been recognized in the financial statements.

#### 7. Financial instruments:

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities and due to a shareholder and officer approximate fair values due to the short-term maturities of these instruments.

#### 8. Share capital:

(a) The Company's authorized share capital consists of 200,000,000 common shares without par value. Details of shares issued during 2003 and 2004 are as follows:

	Number	Amount
Balance, November 1, 2002	47,712,226	\$ 11,853,550
Issued on completion of private placements	6,987,500	541,950
Issued to acquire mineral claims (note 5(b))	500,000	62,500
Issued on exercise of warrants	120,000	16,800
Issue costs	–	(8,750)
Balance, October 31, 2003	55,319,726	12,466,050
Issued on completion of private placements	7,533,166	715,253
Issued to acquire mineral claims (note 5(b))	500,000	40,000
Issued on exercise of warrants	200,000	28,000
Issue costs	–	(22,540)
Balance, October 31, 2004 and January 31, 2005	63,552,892	\$ 13,226,763

(b) In December 2002, the Company completed two private placements and raised \$165,000.

(i) A total of \$100,000 was raised through the issuance of 2,000,000 units priced at \$0.05, consisting of one common share and one-half of a common share purchase warrant exercisable at \$0.10 per share until November 3, 2003. The net proceeds of \$100,000 were allocated \$60,000 to common shares and \$40,000 to warrants. 120,000 of the warrants were exercised on October 30, 2003 for proceeds of \$12,000 and consequently \$4,800 was reclassified from warrants to share capital. A further 200,000 of warrants were exercised on November 3, 2003 for proceeds of \$20,000 and

consequently \$8,000 was reclassified from warrants to share capital. The remaining warrants expired unexercised.

(ii) A total of \$65,000 was raised through 650,000 units priced at \$0.10, consisting of one common share and one common share purchase warrant exercisable until November 3, 2003 at \$0.15 per share. An officer of the Company participated for \$50,000. No value was assigned to warrants due to immateriality. The warrants expired unexercised during the year.

(c) In June 2003, the Company raised \$425,000 through 4,250,000 units priced at \$0.10 consisting of one common share and one-half of a common share purchase warrant exercisable until May 26, 2004. Each warrant was exercisable at \$0.15 per share. Three directors of the Company subscribed for a total of \$187,000 of the financing and hold 935,000 of the warrants. A finders' fee of 7% was paid in the current year on \$50,000 of the total financing in shares of the Company valued at \$0.10 per share. The net proceeds of \$425,000 were allocated \$408,200 to common shares and \$16,800 to warrants. The warrants expired unexercised during the year.

(d) On February 10, 2004, the Company completed and received approval from the TSX, for a number of private placements and raised \$500,000 through 4,166,666 units priced at \$0.12 per unit. Each unit consists of one common share and one common share purchase warrant exercisable at \$0.20 until February 2005. A director of the Company subscribed for \$322,000 of the financing. A finder's fee of 7% was paid on \$138,000 of the total financing in shares of the Company valued at \$0.12 per share. The fee was settled by issuing 80,500 common shares. \$0.01 was assigned to the warrants.

(e) On August 24, 2004, the Company completed and received approval from the TSX for a number of private placements and raised \$250,000 through 3,125,000 units priced at \$0.08. Each unit consists of one common share and one-half common share purchase warrant exercisable at \$0.12 until August 2006. A director of the Company subscribed for \$50,000 of the financing. A finder's fee of 7% was paid on \$184,000 of the total financing in shares of the Company valued at \$0.08 per share. The fee was settled by issuing 161,000 common shares. \$0.01 value was assigned to the warrants.

(f) Under the Employee Stock Option Plan, approved in April 10, 2003, the Company may grant options for up to 10% of the outstanding shares of common stock. Options may be granted to any director, officer, employee or consultant of the Company or any of its subsidiaries. Options granted to directors, officers and employees vest immediately. If the optionee is a consultant or providing investor relations services to the Company, the options must vest in stages over 12 months, with no more than one quarter of the options vesting in any three month period. The number of shares reserved for issuance to any one optionee pursuant to options cannot exceed 5% (2% if the optionee is engaged in providing investor relation services to the Company or is a consultant) of the issued and outstanding common shares of the Company at the date of grant of such options. The exercise price of each option cannot be less than the fair market value of the shares on the last trading day preceding the date of the grant. The maximum term of an option is five years.

The movements in the Company's stock option plan and those outstanding at January 31, 2005 are summarized below:

	Number	Average exercise price
Options outstanding, October 31, 2002	–	\$ –
Issued to employees	3,050,000	0.12
Issued to consultant	250,000	0.12
Options outstanding, October 31, 2003	3,300,000	0.12
Issued to employees	–	–
Issued to consultant	–	–
Options outstanding, October 31, 2004 and January 31, 2005	3,300,000	0.12

The options outstanding at January 31, 2005 expire on May 27, 2008. No value was assigned to options granted to the consultant due to immateriality.

(g) Warrants

	Number	Average exercise price	Amount
Warrants outstanding, October 31, 2002	–	\$ –	\$ –
Issued on private placements	3,775,000	0.14	56,800
Exercised	(120,000)	0.10	(4,800)
Warrants outstanding, October 31, 2003	3,655,000	0.14	52,000
Issued on private placements	5,729,167	0.18	57,287
Exercised	(200,000)	0.10	(8,000)
Expired during the year	(3,455,000)	(0.14)	–
Warrants outstanding, October 31, 2004 and January 31, 2005	5,729,167	0.18	101,287

(h) Stock-based compensation:

The Company follows the disclosure-only provisions of CICA Handbook Section 3870 and does not record any compensation expense when options are granted to employees and directors. Had compensation expense for these grants been determined using the fair value method, the Company's net loss from operations would be as follows:

	2004	2003
Net income (loss)	\$ (228,011)	\$ 175,022
Unrecorded stock option compensation adjustment	–	(91,500)
<b>Pro forma net income (loss)</b>	<b>\$ (228,011)</b>	<b>\$ 83,522</b>
Basic and diluted income (loss) per share - pro forma	\$ (0.00)	\$ 0.00

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility.

For purposes of pro forma disclosures, the following assumptions were used under the Black-Scholes option pricing model: dividend yield of 0.00%, expected volatility of 3.80%, risk-free interest rate of 2.89%; and an expected average term of 1.27 years.

9. Subsequent events:

(i) Private placement:

On November 30, 2004, the Company completed and received TSX approval on a private placement of \$100,000. The financing is in the form of units, with a total of 1,250,000 units priced at \$0.08 per unit, consisting of one common share and one common share purchase warrant exercisable at \$0.12 to November 28, 2006. A director of the Company subscribed for the entire \$100,000, and this amount was received as at October 31, 2004. The common shares and common share purchase warrants were issued in March, 2005.

(ii) Private placement:

On March 17, 2005 the Company completed and received TSX approval on a private placement of \$200,000. The financing is in the form of units, with a total of 3,333,333 units priced at \$0.06 per unit consisting of one common share and one common share purchase warrant exercisable at \$0.10 to February 22, 2007. A director of the Company is subscribing for \$116,550. A total of \$107,400 was received as at January 31, 2005. The common shares and common share purchase warrants were issued in March, 2005.